

CONFIDENTIAL

DDI-

H
7085/82

1 SEP 1982

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : Deputy Director for Intelligence J.

FROM :
Director of Global Issues

SUBJECT : Proposed Outlines for Oil and Gas Studies

25X1

1. Action. None, for your information.

25X1

2. Background. Attached are the proposed outlines for two studies on the oil and gas market outlook and the impact of a Middle East oil cutoff. The outlines develop some of the issues and questions raised in the study you received last week. We expect these follow-up reports to be available for you by 15 September.

25X1

Attachments:
As stated

CONFIDENTIAL

DCI
EXEC
REG
25X1

CONFIDENTIAL

Oil and Gas Market Outlook through 1987
and Implications for the United States

Theme:

Developments in the world oil market and regional gas markets over the next five years could have major implications for US policy. What is the outlook for these key energy markets, the threat of oil supply disruptions, the risk of an oil price collapse, and what does natural gas supply availability mean for Western security?

I. Statement of the Problem

A. Recent history has shown that events in the world oil market can have major implications for US economic growth and foreign policy. Natural gas markets are also becoming more important to US interests.

B. This analysis will examine the outlook of oil and gas markets and discuss their implications for the United States including the risk of oil supply disruptions and the risk of an oil price collapse.

II. World Oil Market Outlook

A. Demand Factors

1. Economic growth and the business cycle in the OECD
2. Price assumptions
3. LDC consumption
4. Stock behavior
5. Range of likely demand

B. Supply Factors

1. OPEC production
2. Non-OPEC production
3. Net Communist exports

C. Risks of a Supply Disruption

1. Historical incidence
2. Persian and non-Persian Gulf threats
3. Facility vulnerability
4. Surplus productive capacity
5. Stockpile availability

D. Risks of a Price Collapse

1. Mexican production and pricing behavior
2. Iran-Iraq settlement

25X1

CONFIDENTIAL

CONFIDENTIAL

III. Interrelationship Between Oil and Gas Markets

IV. Regional Gas Market Outlook

- A. Western Europe
 - 1. Supply availability
 - 2. Demand outlook
 - 3. Need for Soviet gas

- B. Japan

- C. North America

V. Implications for the United States

- A. Impact on US Economic Growth
 - 1. Business as usual scenario
 - 2. Under supply disruptions
 - 3. Price collapse scenario
- B. Impact on Foreign Policy
 - 1. Dealing with energy producers
 - 2. Dealing with Allies
- C. Gas Security Issues

CONFIDENTIAL

CONFIDENTIAL

Impact of a Middle East Oil CutoffTheme:

The economic and political impacts of a loss of oil from the Middle East, both through a loss of actual production and as a result of an oil embargo, could be sizable. What are the factors likely to cause an oil cutoff and what are the effects on oil prices and economic growth, political relationships, and the benefits that might accrue to the Soviets?

I. Statement of the Problem

A. The unstable political climate in the Middle East and the high level of dependence of the Free World on oil supplies from the region dictate that a close examination of the potential for an oil supply disruption is needed.

B. This analysis will examine both the potential and the impact of oil supply disruptions from the Middle East.

II. Factors Causing a Middle East Oil Cutoff

- A. Military Conflict in Region
- B. Closure of Straits of Hormuz
- C. Overthrow of Saudi Regime
- D. Terrorist Actions against Key Oil Facilities
- E. Arab Oil Embargo

III. Classes of Disruptions and Offsets

- A. Size of Gulf Cutoffs
- B. Productive Capacity in Non-Disrupted Areas
- C. Stockpile Availability

IV. Economic Impact

- A. Demand Setting
- B. Oil Price Increases
- C. Curtailment of GNP Growth
- D. Inflation and Unemployment

V. Political Consequences

- A. Behavior of Special Interest Groups
- B. Allied Market Response and Reaction to Producers
- C. Pressure for IEA Cooperation
- D. Non-Disrupted Producer Response

VI. Benefits to the Soviet Union

- A. Oil Sales to West
- B. Gas Sales
- C. Leverage Issues

25X1

CONFIDENTIAL

Page Denied

Next 4 Page(s) In Document Denied